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QUARTERLY REPORT
to the
COUNCIL ON FOREIGN ECONOMIC POLICY

SINO-SOVIET BLOC
ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
JULY-SEPTEMBER 1958

1. General.

During the third quarter of 1958 the Sino-Soviet Bloc maintained the momentum of its economic drive throughout the underdeveloped areas. Exhibiting the opportunism and flexibility which have characterized much of its foreign economic program, the USSR has intensified its trade drive in Latin America in recent months, capitalizing on the political restiveness and acute economic distress in a number of these countries. While the USSR has attempted to exploit opportunities for expanding its influence in new areas, it has not slackened its interest in the Middle East.

New Bloc industrial credits and grants extended in the period July-September 1958 totaled \$45.3 million, and, in addition, the USSR concluded an arms agreement with Egypt estimated to be \$100 million. These new credits and grants bring total Bloc assistance to Free World underdeveloped countries since 1954 to \$2,167 million, of which \$645 million represent military credits.

2. Middle East.

The major thrust of Soviet Bloc economic activity continues to be directed toward the UAR, where the Bloc is engaged in implementing earlier credit agreements and negotiating new ones. The Egyptian sector of the UAR recently concluded its fourth arms agreement with the Bloc, involving an additional credit of \$100 million. With this agreement, Bloc arms credits to the UAR reached a total value of \$495 million, \$350 million of which have been extended to Egypt. Soviet deliveries under this credit probably will include tanks of advanced design, as did recent deliveries to Syria. In July and August, Syria received substantial amounts of military equipment, including jet fighters, under the \$45-million arms agreement with the USSR signed earlier this year.

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Implementation of UAR-Soviet economic credit agreements is being accomplished with reasonable speed. At least 130 Soviet technicians have been in Syria in recent months to undertake surveys for development of the transportation network, irrigation works, and other projects envisaged under the \$168-million Syrian-Soviet credit agreement. Under this Soviet credit, Bulgaria was awarded in July an \$8.7-million contract for construction of a dam in connection with a major reclamation project in western Syria. Final contracts for mining and petroleum equipment worth \$12.6 million and for three spinning mills have been signed thus far under the \$175-million Egyptian-Soviet economic credit agreement. Under a credit recently extended, East Germany will furnish equipment worth \$5.7 million for a large spinning mill in Egypt. In addition, Egypt recently accepted a \$21.5-million credit from East Germany for heavy industrial equipment required for fulfillment of development plans. With the additional commitments made in recent months, total Bloc credits to the UAR, both economic and military, now total \$953 million.

Elsewhere in the Middle East the Soviet Bloc welcomed the July revolution in Iraq and immediately made overtures aimed at an expansion of economic relations with the new Iraqi regime. Inasmuch as Iraq has substantial capital resources for economic development, Bloc approaches have been primarily in the direction of developing trade ties and providing technical assistance. Three weeks after the Iraqi coup d'etat, an East German delegation arrived in Baghdad to discuss ways of expanding trade and generally strengthening economic relations. A formal trade agreement is now under study by the Iraqi government. Hungary and Czechoslovakia also have dispatched representatives to Iraq with the same objective. Trade between Iraq and Bloc countries was very slight before the revolution, but continued pressure from the Bloc and the receptivity of the new regime to improved relations with Bloc countries will probably result in an expansion of commercial contacts. Moreover, Iraqi officials recently reversed the policy of the former regime and announced that bids for development projects will henceforth be invited from the Bloc as well as from Western firms. Thus the door has been opened for the participation of Bloc countries in Iraq's development as sources of technical, if not capital, assistance.

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3. Latin America.

In recent months the Soviet Bloc has noticeably intensified its drive to expand economic ties with certain Latin American countries. Several of these countries have been hard hit by sagging world markets for their primary commodities, especially coffee and wool, from which they derive a large portion of their foreign exchange. It is in this context that Soviet offers to supply much-needed capital equipment and fuels in return for surplus agricultural commodities have seemed particularly attractive.

An expansion of commercial dealings between Argentina and the Bloc has been especially noteworthy. Following an earlier agreement to purchase a large quantity of Soviet crude oil, Argentina contracted in August to purchase from Poland about 2 million metric tons of coal, a quantity which is sufficient to fill 25 percent of Argentina's coal requirements over the next 4 years. In July the USSR offered to sell petroleum equipment worth \$100 million on a long-term payment arrangement in exchange for Argentine agricultural products. An Argentine delegation has been sent to the USSR to discuss this proposal, which is the first concrete Bloc offer of this magnitude to any Latin American country.

Uruguay has also made important purchases of petroleum products from the USSR. After purchasing a large amount of crude oil in the spring, Uruguay contracted in early August for the delivery of fuel oil. In addition, the direct wool exports of Uruguay to the USSR soared in 1958.

Brazil is also giving serious consideration to Soviet offers to supply crude oil in exchange for coffee and cocoa. The prospect of a Bloc outlet for Brazil's surplus coffee is an attractive one and would permit Brazil to satisfy certain import requirements and at the same time conserve scarce foreign exchange reserves. These considerations were determining factors in an agreement with Poland reached earlier this year by which Brazil will pay for 14 merchant ships largely with coffee exports.

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4. Other Noteworthy Developments.

Renewed Soviet pressure on Libya to accept Soviet aid and to increase trade was evident during the summer. A new offer of financial and technical assistance was recently extended, but no official Libyan reply has yet been made. Czechoslovakia recently signed a new arms agreement with Yemen, and the USSR has been engaged in construction of military facilities in this Arab monarchy. The USSR also extended a \$3.2-million credit to Iceland, refinancing an earlier loan extended by East Germany for the purchase of 12 fishing boats.

Recent Bloc activity in Indonesia includes a Soviet offer to supply 200,000 metric tons of rice on a long-term credit and a \$50-million credit offer from Communist China. Indonesia earlier purchased a large amount of rice from Communist China to relieve serious shortages caused by insufficient domestic production. A Soviet technical mission is currently in Djakarta to discuss utilization of the remainder of the \$100-million Soviet line of credit. The latest allocation under this credit was for 12 ships obtained for coastal cargo service in Indonesia. An Indonesian order for 24 additional vessels was recently placed with Poland.

Communist China, on a modest scale characteristic of its economic penetration activities, offered to augment the previous \$22.4-million grant to Cambodia by granting an additional \$5.6 million which will be used for small development enterprises. Ceylon accepted a \$10.5-million long-term credit from Communist China in September, thus bringing the total of Bloc assistance to Ceylon to approximately \$59 million.

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